

(FOREX Project):

I'm selecting **Japanese Yen** currency. I predict it will **appreciate** (go up) (relative to the US dollar.

Information on Prediction

Imagine you are a currency speculator starting out with the sum of \$1,000,000. Here is your step-by-step plan:

1. Select a foreign currency you want to speculate for or against. Do not select a currency that is on a fixed exchange rate with the dollar or UAE Dirham. Use standard end of the trading day market quotes for exchange rates, such as the Bloomberg terminal or Reuters. NOTE: In selecting a target foreign currency consider a country, where you travelled to or have a personal motivation to learn about this currency.
2. Based on your preliminary analysis, decide whether this currency is going to appreciate (go up) or depreciate (go down) from April 15 to May 6, 2022. Backdating the project to April 15 gives you some ten days of observation (April 15 to April 24) to make a guess about the direction of your target currency exchange rate against the dollar in the remaining two months.
3. If you think your target currency will appreciate, you must take a **long position**. Use your \$1,000,000 to buy the target currency for a holding period and make a profit.
4. If you think it will depreciate, you must take a **short position**. Borrow the foreign currency today against the dollar; hope to repay the loan at the end of the period by buying this borrowed foreign currency with dollars.

Project Content

1. Follow the fluctuations of your currency exchange rate against the dollar using The Wall Street Journal's exchange rate table and draw a graph. (See Module 2 for directions to automatically create graph.)
2. At the end of the period (April 15 - May 6),
 1. Calculate how much you have lost or gained. (Show this in USD.)
 2. Annualize the returns. (Using ARR formula)
1. Provide a short commentary about the behavior of your currency and list any identifiable reasons for its behavior.
2. Note: you need NOT account any currency exchange fees, interest that would be due on the borrowed money, etc.
3. Based on what you've learned in your speculation describe how you would use forex forward markets to hedge your currency risk worth \$1,000,000. For example, how would you hedge currency risk being a US exporter of bourbon, coffee, etc.
 1. Assume that the time gap between the signing of your trade contract and payment is three months.
 2. During that period, a foreign currency in question experiences a major unexpected APPRECIATION.
 3. Assume that the 3-month forward rate for a foreign currency is equal to its spot rate.
 4. Assume the upfront fee for the forward contract is 1.5%. Don't worry about interest rates, etc.
 5. What was the cost? Show all your calculations.
 6. Was it a good decision to buy the forward contract? Why or why not?
1. Do not worry if you "lose money." That will not affect the evaluation of your project in any way. What you need to provide is a clear understanding of your hedging, your grasp of relevant data, your reasoning and a meaningful commentary.

Format

The whole project should not be more than 4-5 pages long, single-spaced.

Page 1

First paragraph =

Your name.

I selected ___ currency.

I predicted it would ... appreciate (go up) OR depreciate (go down) relative to the US dollar.

My strategy was to ... go long (buy foreign currency) OR go short (borrow foreign currency).

My prediction (position) was correct/incorrect.

Second paragraph =

Modern/recent history of the currency you selected. Brief characteristic of the country's economy, including its

Third paragraph =

Your reasoning for taking a long or a short position in trading this currency.

Page 2

Table - that shows daily currency exchange rate against the dollar for the time period.

Graph - that shows daily currency exchange rate against the dollar for the time period. The graph should match

Page 3

Total gain/loss in USD (show calculations)

Annualized return (use ARR formula and show calculations)

Commentary about behavior of your currency during the project period. (Max of 1/2 page)

Page 4

Hedging - Forward contract

What was the cost? (Show all your calculations.)

Was it a good decision to use the forward contract? Why or why not? (1-2 paragraphs)

Tutorial

A Tutorial on FOREX topics is provided in a separate document. It contains Module 2 lecture material, explain the document to make sure you understand how to make a currency selection at the start of the FOREX project. Complete the project.

Use these Sources

Ch. 10 of the text and Module 2 materials (Week 1).

Samples of previous FOREX projects and hedging are posted in the section below in Blackboard. (Note - they are over the years. These samples are for reference only. **Follow the directions above!**)

Online Sources:.

- [Pacific Exchange Rate Service](#)
- [The Wall Street Journal currency markets section](#)
- [Yahoo Finance - Currencies](#)
- [World Currency Symbols](#)

